

AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON DANNHAUSER MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Dannhauser Municipality, which comprise the statement of financial position as at 30 June 2010, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages xx to xx.

Accounting Officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with Standards of Generally Recognised Accounting Practise (Standards of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2009 (Act No. 12 of 2009) (DoRA). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of South Africa, 1996, read with section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

7. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Dannhauser Municipality for the year ended 30 June 2010 and its financial performance and its cash flows for the year then ended, in accordance with the Standards of GRAP and in the manner required by the MFMA and DoRA.

Additional matter

8. I draw attention to the matter below. My opinion is not modified in respect of this matter:

Other information included in the annual report

9. I have not obtained the other information included in the annual report for my review and have not been able to identify any material inconsistencies with the financial statements.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

10. As required by the PAA and in terms of *General Notice 1570 of 2009*, issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the following key laws and regulations, MFMA, MSA and financial management (internal control).

Predetermined objectives

11. Material findings on the report on predetermined objectives, as set out on pages xx to xx, are reported below:

Non-compliance with regulatory and reporting requirements

Municipal Finance Management Act

Inadequate content of integrated development plan

Performance audit committee

12. Contrary to section 166(2) and (3) of the MFMA, the performance audit committee did not review the quarterly performance measurement reports tabled by the internal auditors and did not table reports on performance management to the council.

Municipal Systems Act

Core components of performance management system

13. Contrary to section 41(1)(c) to (e) of the Municipal Systems Act, 2000 (Act No. 32 of 2000), the performance management system currently in place did not specifically provide for:
 - the monitoring, measurement and review of performance at least once per year with regard to each of the development priorities and objectives and against the key performance indicators and targets.
 - policies and procedures to take steps to improve performance with regard to those development priorities and objectives where performance targets were not met.
 - a process of regular reporting to the council, other political structures, political office bearers and staff of the municipality and the public and appropriate organs of state.

Usefulness of information

14. The following criteria were used to assess the usefulness of the planned and reported performance:

- **Consistency:** Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved IDP, i.e. are the objectives, indicators and targets consistent between planning and reporting documents?
- **Relevance:** Is there a clear and logical link between the objectives, outcomes, outputs, indicators and performance targets?
- **Measurability:** Are objectives made measurable by means of indicators and targets? Are indicators well defined and verifiable, and are targets specific, measurable, and time bound?

The following audit findings relate to the above criteria:

Planned and reported objectives not measurable

15. The municipality has indicated a key objective to significantly decrease the crime over the next 12 months without stating the extent of a decrease in quantitative terms. As a result the performance achieved could not be measured.

Compliance with laws and regulations

Municipal Finance Management Act

Financial management and submission of financial statements

16. Contrary to section 62(1)(c) of the MFMA, the municipality did not have a fraud prevention plan as well as independent channels to report fraud and suspicions.
17. Contrary to section 126(1) of the MFMA the financial statements were not submitted within 2 months after year end. The financial statements were received on 8 October 2010.

Functioning of audit committee

18. Contrary to section 166 of the MFMA, the audit committee had not performed its prescribed review function.

INTERNAL CONTROL

19. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with the following key laws and regulations, MFMA, and the MSA, and but not for the purpose of expressing an opinion on the effectiveness of internal control.
20. The matters reported below are limited to the significant deficiencies regarding the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.

Leadership

21. The accounting officer did not exercise oversight responsibility over financial and performance monitoring and reporting and compliance with laws and regulations and internal control. Actions were not taken to address risks relating to the achievement of complete and accurate performance reporting.

Governance

22. The municipality did not identify risks relating to the achievement of financial and performance reporting objectives. The audit committee did not fulfil its responsibilities as set out in legislation relating to its review function.

Auditor - General

Pietermaritzburg

23 December 2010



**AUDITOR - GENERAL
SOUTH AFRICA**

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